



BellSouth Telecommunications, Inc.

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March 29, 2004

Mr. Thomas M. Dorman
Executive Director
Public Service Commission
211 Sower Boulevard
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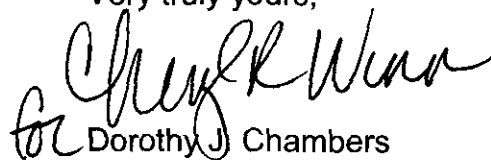
**PUBLIC SERVICE
COMMISSION**

Re: The Review of BellSouth Telecommunications, Inc.'s Price
Regulation Plan
PSC 2003-00304

Dear Mr. Dorman:

Enclosed for filing in the above-captioned case are the original and ten (10) copies of BellSouth Telecommunications, Inc.'s Comments pursuant to the Commission's March 8, 2004, Order.

Very truly yours,


for Dorothy J. Chambers

cc: Parties of Record

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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MAR 29 2004

PUBLIC SERVICE
COMMISSION

In the Matter of:

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|----------------------------|---|------------|
| THE REVIEW OF BELL SOUTH |) | |
| TELECOMMUNICATIONS, INC.'S |) | CASE NO. |
| PRICE REGULATION PLAN |) | 2003-00304 |

COMMENTS OF BELL SOUTH TELECOMMUNICATIONS, INC.

In the Commission's March 8, 2004 order in this case, the Commission allowed 20 days from the date of the order for parties to file comments regarding the Vantage Consulting, Inc. audit entitled *A Review of BellSouth-Kentucky's Transition Regulatory Plan*. The following are BellSouth's comments on the audit findings.

Based on the findings and recommendations of the independent auditor, BellSouth recommends that the Commission:

1. Approve the Transition Regulation Plan on an indefinite basis, as recommended by both the Company and the independent auditor.
2. Approve the Industry proposal for the regulation of Contract Service Arrangements (CSAs) (Case No. 2002-00456).
3. Approve the Company's proposal for presumptive validity. (Case No. 2002-00276).

The audit report confirms that BellSouth's Transition Regulation Plan (TRP) has met its objectives and should be continued. The auditors were thorough in their investigation and we appreciate their professionalism. The auditors were able to gain an accurate understanding of the competitive state of

the Kentucky telecommunications marketplace. However, the auditors noted that the actual level of competition present in the Kentucky marketplace cannot be gleaned from reliance on the FCC Local Competition and High Speed Services reports on this issue. As noted below, data from over 90% of competitors in Kentucky was not included in the FCC Local Competition report.

The auditor's comments on Page 2 of the review clearly establish the TRP is working and should be continued; "In our opinion, the TRP has met or exceeded its goals of allowing competition to increase within the state and making broadband available to a greater number of customers while retaining or improving service levels." Key points of the audit are: 1) Basic service rates are reasonable. 2) Service quality has not deteriorated or taken a negative trend during the TRP. 3) Competition continues to rapidly grow in BellSouth's serving area and competitive choices are available for all market segments (residential, small and large size business, and broadband services).

The following brief comments highlight some of Vantage's findings and recommendations, and how they support BellSouth's proposal to continue operating under the Transition Regulation Plan (see August 1, 2003 proposal).

FINDINGS

Objectives of the Transition Regulation Plan

There are seven specific objectives of the TRP (see A36.1.1.B). In the Company's August 1, 2003 proposal, BellSouth identified these objectives and

explained how each objective had been satisfied over the three-year life of the TRP (see filing, pages 4-9).

The audit report confirms BellSouth's position that the objectives of the TRP have been achieved (see audit report pages 3 and 4). In its evaluation of the Transition Regulation Plan's success in meeting the seven objectives, Vantage concluded, "Our evaluation shows that each of the objectives in the TRP were met." (Audit Report, page 3)

Competition

A critical finding in the audit, and the one upon which much of the evaluation of the Transition Regulation Plan hinges, is that **competition in all areas of the Kentucky telecommunications market is present and growing rapidly from multiple sources.**

BellSouth has filed data with the Commission in numerous cases that document that in BellSouth's serving area, CLECs now serve over 20% of the market, and that much of the competition BellSouth faces is not only facilities-based, but also the result of Unbundled Network Elements sold to BellSouth's competitors at rates lower than the costs BellSouth incurs to provide these elements. These, as well as resale competition, wireless, and cable, are all viable alternatives for consumers today.

The audit report confirms BellSouth's position that there is continued growth of competition from many sources (wireline, wireless and cable) in Kentucky.

On page 13 of the audit report, Vantage concludes "By almost any measure, competition and the choices available to Kentucky customers have increased since the TRP was put into place". This finding was reached after the auditors reviewed available third party competitive data from the FCC, noted the shortcomings of that data that made it incomplete (only seven of the eighty-five CLECs operating in Kentucky reported data), and considered additional data provided by the Company. The Kentucky telecommunications market is competitive and the use of reports such as the FCC Local Competition Report should be avoided since such reports do not include data from the majority of CLECs operating in Kentucky.

Service Quality

Under the TRP, BellSouth has continued to provide a high quality of service to its customers, retail and wholesale. The auditors reviewed service quality as it relates to retail and wholesale service. Their determination is that "Based on the review we concluded that service quality has not deteriorated during the TRP and there is no indication of negative trends at the reported level." The auditors also determined that "The combination of TRP service objectives, which are traditional in scope, and the wholesale service objectives mean that BellSouth is well measured and observed across the board."

Infrastructure Investment

The auditors reviewed the infrastructure investment commitment that BellSouth made at the beginning of the Transition Regulation Plan, and

concluded that the Company had not only met its commitment, but had far exceeded it. Audit finding III-F7 states: "By any measure, the broadband investment objective agreed to by BellSouth as part of the TRP has been met."

The audit report notes that the marketplace has now taken over the deployment of broadband. The TRP was motivation for early deployment in rural areas, but the market is now driving deployment decisions for all providers in this highly competitive broadband market.

Broadband deployment continues to be a priority for the industry and for the state. BellSouth supports legislation currently before the Senate and House that will create the environment for continued broadband deployment in Kentucky for all providers.

RECOMMENDATIONS

The Commission Should Relax Regulatory Oversight of BellSouth

The auditors concluded that there are other areas where regulatory oversight of BellSouth could be further relaxed. These involve the areas of Presumptive Validity and the filing of Contract Service Agreements (CSAs). The auditors commented on presumptive validity by saying, "Nothing within BellSouth's proposal negates the KPSC from investigating a filing or a third party filing a petition, which may lead to an investigation while the proposed tariff is in effect." This is a continued issue from the Management audit performed by Vantage Consulting over 4 years ago. During this time, the market has become more competitive and as a result, there is an even stronger need to respond quickly in the marketplace.

BellSouth encourages the Commission to continue its steps toward market based competition by recognizing and implementing the pricing flexibility offered by presumptive validity and streamlined filing requirements relative to CSAs and promotions. The audit recommendation IV-R3 states; "The KPSC should strongly consider accepting, in some fashion, the Joint Industry Proposal put forth by BellSouth, Kentucky ALLTEL and Cincinnati Bell regarding Contract Service Arrangement standards." Pricing flexibility such as that in Presumptive Validity and reduced administrative burden of filing of CSAs is important to continuing the benefits of competition to consumers in Kentucky.

The auditors make note that not one CLEC has contested a CSA filed by BellSouth and likewise, the Commission has approved all BellSouth CSAs other than one in 1990. This demonstrates BellSouth is complying with the TRP pricing provisions.

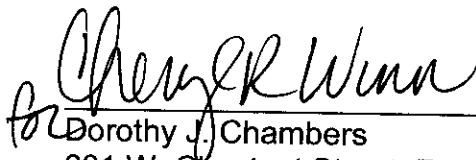
The TRP Should Be Continued Permanently

BellSouth encourages the Commission to accept Vantage's recommendation to renew the Transition Regulation Plan. The Transition Regulation Plan has accomplished its purpose. Perhaps the most critical element of the TRP is the flexibility it provides the Company to make proposals for the Commission's consideration, while continuing the Commission control over the level of basic exchange rates.

The marketplace in BellSouth's serving area is competitive, and both the Commission and the Company need the flexibility the TRP provides to react to the shifting demands created by a fluid market. The Company has

recommended an indefinite renewal of the TRP, and the independent auditor chosen by the Commission has concurred in that recommendation. According to the auditors' report on page 53, "There is clearly a strong argument that after three years of success there is no need for another 'probationary period'."

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Dorothy J. Chambers", is written over a horizontal line.

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CERTIFICATE OF SERVICE

It is hereby certified that a true and correct copy of the foregoing was served on the individuals on the attached service list by mailing a copy thereof, this 29th day of March, 2004.


for Dorothy J. Chambers

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